

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-032
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-032

33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Michael Cullinan, President
Board of Directors
33rd DAA, San Benito County Fair
9000 Airline Highway
Tres Pinos, California 95075

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 33rd District Agricultural Association (DAA), San Benito County Fair, Tres Pinos, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 33rd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

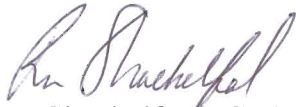
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 33rd DAA, San Benito County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 33rd DAA, San Benito County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-032, on the 33rd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 33rd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", written in a cursive style.

Ron Shackelford, CPA
Chief, Audit Office

August 7, 2009

**33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 118	\$ 79,790	\$ 69,143
Accounts Receivable, Net	131	43,827	28,372
Land	191	61,442	61,442
Buildings and Improvements, Net	192	1,266,542	769,437
Equipment, Net	193	1,706	3,116
TOTAL ASSETS		<u>1,453,307</u>	<u>931,511</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	10,688	7,557
Other Payables	221 - 226	10,381	9,004
Deferred Income	228	1,010	4,602
Guaranteed Deposit	241	13,641	11,309
Compensated Absences Liability	245	41,225	37,153
Total Liabilities		<u>76,945</u>	<u>69,625</u>
Net Resources			
Reserve for Junior Livestock Auction	251	64,012	61,447
Net Resources - Operations	291	(17,340)	(33,556)
Net Resources - Capital Assets, less related debt	291.1	1,329,689	833,995
Total Net Resources Available		<u>1,376,361</u>	<u>861,886</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,453,307</u>	<u>\$ 931,511</u>

**33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Allocation	312	\$ 180,000	\$ 180,000
Capital Projects, Other Funding	319,340	590,622	36,213
Admissions	410	53,295	69,611
Commercial Space	415	17,955	19,275
Carnival	421	24,800	25,000
Concessions	422	17,007	21,214
Exhibits	430	21,545	19,170
Horse Show	440	20,406	15,646
Miscellaneous Fair	470	36,892	49,667
JLA Revenue	476	29,835	39,862
Non-Fair Revenue	480	148,452	144,186
Prior Year Adjustment	490	472	315
Other Operating Revenue	495	43,325	19,383
Total Revenue		<u>1,184,607</u>	<u>639,541</u>
EXPENSES			
Administration	500	226,748	217,911
Maintenance and Operations	520	201,119	189,558
Publicity	540	26,221	22,145
Attendance	560	18,315	20,368
Miscellaneous Fair	570	5,878	8,228
JLA Expense	576	27,271	27,026
Premiums	580	22,690	23,872
Exhibits	630	25,921	26,496
Horse Show	640	21,725	17,711
Attractions - Fairtime	660	30,561	35,835
Prior Year Adjustments	800	15,567	(86,480)
Cash Over/Short from Ticket Sales	850	(46)	(43)
Depreciation Expense	900	44,114	44,114
Other Capital Expenditures, Reimbursable	945	4,047	36,213
Total Expenses		<u>670,131</u>	<u>582,955</u>
RESOURCES			
Net Change - Income / (Loss)		514,475	56,585
Resources Available, January 1		861,886	805,301
Resources Available, December 31		<u>\$ 1,376,361</u>	<u>\$ 861,886</u>

**33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 514,475	\$ 56,585
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(15,454)	(1,007)
Increase (Decrease) in Accounts Payable	3,131	(5,180)
Increase (Decrease) in Payroll Taxes Payable	1,377	562
Increase (Decrease) in Deferred Income	(3,592)	(42,063)
Increase (Decrease) in Guaranteed Deposits	2,332	(2,841)
Increase (Decrease) in Compensated Absence Liability	4,072	1,271
Total Adjustments	<u>(8,134)</u>	<u>(49,258)</u>
Net Cash Provided (Used) by Operating Activities	<u>506,341</u>	<u>7,327</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction-in-Progress		
(Increase) Decrease in Buildings & Improvements, Net	(497,105)	(43,890)
(Increase) Decrease in Equipment, Net	1,410	1,573
Net Cash Provided (Used) by Investing Activities	<u>(495,695)</u>	<u>(42,317)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Debt	-	-
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	10,647	(34,990)
Cash at Beginning of Year	69,143	104,133
CASH AT END OF YEAR	<u><u>\$ 79,790</u></u>	<u><u>\$ 69,143</u></u>

**33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 33rd District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the San Benito County Fair each year in Tres Pinos, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	3,120	5,022
Cash in Bank - Premium	572	250
Cash in Bank - LAIF	35,842	20,123
Cash in Bank - JLA	<u>40,156</u>	<u>43,649</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 79,790</u></u>	 <u><u>\$ 69,144</u></u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable - Trade	\$ 19,748	\$ 11,777
Accounts Receivable - JLA	25,468	17,984
Allowance for Doubtful Accounts	<u>(1,389)</u>	<u>(1,389)</u>
 Accounts Receivable – Net	 <u><u>\$ 43,827</u></u>	 <u><u>\$ 28,372</u></u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$2,795,090	\$2,258,328
Less: Accumulated Depreciation	<u>(1,528,548)</u>	<u>(1,488,891)</u>
Building & Improvements - Net	<u><u>\$1,266,542</u></u>	<u><u>\$ 769,437</u></u>
 Equipment	 \$ 61,421	 \$ 61,421
Less: Accumulated Depreciation	<u>(59,715)</u>	<u>(58,305)</u>
Equipment – Net	<u><u>\$ 1,706</u></u>	<u><u>\$ 3,116</u></u>

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement

plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

**33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 33rd DAA Board of Directors
1	Chief Executive Officer, 33rd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA

MANAGEMENT REPORT #09-032

YEAR ENDED DECEMBER 31, 2008

33RD DISTRICT AGRICULTURAL ASSOCIATION
SAN BENITO COUNTY FAIR
TRES PINOS, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-032

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Michael Cullinan, President
Board of Directors
33rd DAA, San Benito County Fair
9000 Airline Highway
Tres Pinos, California 95075

In planning and performing our audit of the financial statements of the 33rd District Agricultural Association (DAA), San Benito County Fair, Tres Pinos, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the San Benito County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 33rd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 33rd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 33rd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 33rd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 33rd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 33rd DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements, accounting for fixed assets, interim revenue, and independent contractors. We have provided 11 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 33rd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions:

- a. The Fair did not always complete a Standard 204, Payee Data Record, for businesses/individuals receiving payment from the State of California (DAA's). In addition, there was no evidence of federal backup withholding. If no Standard 204 is completed or accurately completed, federal backup withholding is required to be withheld.
- b. The Fair did not always prepare and issue an IRS Form 1099-MISC, Miscellaneous Income, to independent contractors providing services to the Fair when required. The Fair must file a Form 1099-MISC, Miscellaneous Income, for each recipient receiving payment of \$600 or more from the Fair when required.
- c. The Fair did not always submit hazardous contracts to CFSA for approval. We noted two out of four hazardous contracts were not submitted to CFSA as required.
- d. The Fair did not always go out to bid for service contracts in excess of \$5,000 as required by the Fairs & Expositions (F&E) Contract Manual. Contracts greater than \$5,000 that are not otherwise exempt from bidding must be either formally bid or awarded using the Alternative Bid Process. Formal bidding shall be done through either the Request for Proposal (RFP) or Invitation for Bids (IFB) process. This was a prior year audit finding.
- e. The Fair did not submit on a quarterly basis, a report listing all contracts processed during that quarter to F&E as required by the contracts manual. Contracts required to be reported are standard agreements, rental agreements, and amendments.

Recommendations

1. *The Fair should ensure that a Standard 204, Payee Data Record, is completed for any business/individual receiving payment from the Fair. If no Standard 204 is prepared or accurately completed, federal backup withholding is required to be withheld.*
2. *The Fair should ensure that an IRS Form 1099-MISC, Miscellaneous Income, is prepared and issued for each recipient receiving payment of \$600 or more from the Fair when required.*
3. *The Fair should ensure that all hazardous contracts are submitted to CFSA for approval.*
4. *The Fair should comply with the F&E Contract Manual and formally bid or use the Alternative Bid Process when required.*
5. *The Fair should comply with the F&E Contract Manual and submit to F&E, on a quarterly basis, a report listing all contracts processed during the quarter.*

ACCOUNTING FOR FIXED ASSETS

An examination of the fixed asset records revealed the following exceptions:

- a. The property ledger, general ledger, and depreciation schedule balances at year-end 2008 for Account #192, Buildings and Improvements, do not agree with each other. The property and general ledgers are understated \$796,885 and \$536,762, respectively. The property ledger is understated due to no fixed asset transactions being recorded since 2004. The general ledger is understated due to non-posting of the golf course club house costs totaling \$540,000 and other various journal entries.
- b. The property ledger balance did not agree to the general ledger and depreciation schedule balances at year-end 2008 for Account #193, Equipment. The property ledger was understated \$21,952 due to non-recording of two transactions dated 1997 and 2005.
- c. The Fair incorrectly utilizes the asset depreciation schedule as the property ledger. A property ledger contains detailed information for each capitalized asset which is essential for accurate fixed asset recordkeeping. Detailed information is not included in the depreciation schedule, which makes the depreciation schedule inadequate for recordkeeping. The property ledger consists of individual ledger sheets for each asset and a control sheet that summarizes the individual ledger sheets which supports the general ledger and depreciation schedule balance.

Recommendations

6. *The Fair should make the necessary correcting journal entries that ensure amounts reported for fixed assets in the general ledger are correct.*
7. *The Fair should update the property ledger and periodically reconcile to the general ledger and depreciation schedule prior to closing the accounting period and preparing the annual statement of operations. In addition, the Fair should ensure that, at year-end, the property ledger agrees to the general ledger. Any differences should be researched for their cause and corrected.*
8. *The Fair should make improvements in the accounting for its fixed assets by updating the property ledger on a timely basis and not solely relying on the asset depreciation schedule as the property ledger.*

INTERIM REVENUE

The Fair did not perform a year-end review to determine total 2008 revenue due from the Bolado Golf Course. According to the contract, the Fair is to receive the greater of \$25,000 or ten percent of the gross revenue. For 2008, the Fair collected \$25,000; however, ten percent of the 2008 gross revenue equaled \$31,219. As a result, the golf course owes the Fair \$6,219. In addition, the accounts receivable account is understated.

Recommendation

9. *The Fair should perform a year-end review to ensure that revenue due from the Bolado Golf Course is accurate.*

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA. This was a prior year audit finding.

In addition, the Fair did not complete the Independent Contractor/Employee Status Determination Statement for all individuals/sole proprietors with a standard agreement providing services to the Fair. This statement helps state agencies distinguish between an independent contractor and an employee. This was a prior year audit finding.

Recommendations

10. *The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.*
11. *The Fair should complete the Independent Contractor/Employee Status Determination Statement to document how the individual's classification was determined.*

NON-REPORTABLE CONDITIONS

TEMPORARY EMPLOYEES

An examination of temporary employee records revealed the following exceptions:

- a. The Fair did not complete and submit the DE 34, Report of New Employee(s), to the EDD New Employee Registry as required. Federal law requires all employers to report to the EDD within 20 days of their start-of-work date.
- b. The Fair did not enroll a temporary employee into the Alternative Retirement Program (ARP) after qualifying for California Public Employees' Retirement System (CalPERS) membership. To qualify for CalPERS membership, an employee must work at least 1,000 hours in a fiscal year. The employee reached 1,000 hours during March 2009 but, as of July 2009, has not been enrolled into ARP as required.
- c. The Fair allowed one temporary employee to work in excess of the 119-day limitation. The employee worked 151 days during 2008, which could result in the employee not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(1), officers and employees of DAAs employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees working six months or more in a calendar year may not be exempt from civil service law. Six months equates to 120 days considering a five-day work week regardless of the number of hours worked in a day. Furthermore, the Accounting Procedures Manual (APM) states that temporary employees may not work more than 119 days in a calendar year.

Recommendations

The Fair should ensure that the DE 34, Report of New Employee(s), is completed and submitted to the EDD New Employee Registry within 20 days of their start-to-work date.

The Fair should ensure that all temporary employees who qualify for CalPERS membership are enrolled in the ARP.

The Fair should comply with the Constitution of the State of California and ensure that temporary employees do not work in excess of six months in a calendar year to remain exempt. In addition, the Fair should follow the APM and not allow any temporary employee to work in excess of 119 days in a calendar year.

ACCOUNTING FOR COMPENSATED ABSENCES LIABILITY

The Fair allowed one permanent employee to maintain a compensated time off (CTO) running balance in excess of the maximum amount allowed for two months. According to the Department of Personnel Administration (DPA) and the Accounting Procedures Manual (APM), the maximum number of accumulated CTO hours allowed to be maintained is 240

hours. The employee had a balance of 284 hours at year-end 2008, which is 44 hours over the amount allowed to be maintained. Allowing an employee to maintain a running balance in excess of the maximum allowed increases the Fair's liability should the employee leave State service.

Recommendation

The Fair should ensure that permanent employees do not maintain a CTO running balance in excess of the maximum allowed. CTO hours in excess of 240 hours must be paid.

PURCHASING PROCEDURES

The Fair made opportunity purchases during 2008; however, the Fair did not document that purchases made locally were at a price equivalent to or less than that available through the state-purchasing program. Opportunity purchases allow DAAs to purchase commodities from any source provided it meets or beats the state price. In addition, Section 10321 of the Public Contract Code (PCC) states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must document bid information or exemption justification when necessary.

Recommendation

The Fair should comply with the F&E opportunity purchasing guidelines in the Purchasing Manual and document that the purchase made locally was at a price less than or equal to that available through the state-purchasing program.

CARNIVAL REVENUE

The Fair exposed itself to loss by not adequately determining whether the \$25,000 guaranteed amount received from the carnival contractor is greater than the optional revenue calculation amount. Based on the contract, the optional revenue calculation amount consists of \$1 per paid attendance, \$300 per game/food concessions, and a percentage of advance sale coupons. The Fair, however, incorrectly compared total advance sale coupons to the \$25,000 guaranteed amount to determine which amount is owed the Fair. As a result, it is unknown whether the guaranteed amount received by the Fair is larger than the optional revenue calculation amount.

Recommendation

The Fair should prepare the carnival recap sheet correctly which will include all the optional revenue calculation elements stated in the contract when determining whether the \$25,000 guarantee is larger than the optional revenue calculation amount.

GUARANTEED DEPOSIT

The Fair did not have a guarantee deposit control log to support the \$13,000 balance at year-end 2008. Without a control log, the Fair is unable to determine which renters maintain a deposit with the Fair. The control log would indicate renters who still have deposits held by the Fair.

Recommendation

The Fair should prepare and maintain a control log for guarantee deposits to support the general ledger balance and show which renters have deposits maintained by the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



SPONSORED BY THE
33RD DISTRICT AGRICULTURAL ASSOCIATION

December 20, 2009

Attn: Ron Shackelford CPA
Chief, Audit Office
State of California
Department of Food and Agriculture
1220 N. Street, Room 344
Sacramento, CA 95814

RE: Management 09-032

Dear Ron,

Please find an overview of our written responses stating our plans and a timetable for implementing each recommendation as per our recent audit.

STANDARD AGREEMENTS

1. The fair will ensure that a Standard 204, Payee Data Record, is completed for any business / individual receiving payment from the fair.
2. The fair will ensure that an IRS Form 1099-MISC, Miscellaneous Income, is prepared and issued for each recipient receiving payment of \$ 600.00 from the fair when required.
3. The fair will ensure that all hazardous contracts are submitted to CFSA for approval.
4. The fair will comply with the F&E Contract Manual and formally bid or use the Alternative Bid Process when required.
5. The fair will submit on a quarterly basis all contracts processed during the year.

ACCOUNTING FOR FIXED ASSETS

6. The fair shall make the necessary correcting journal entries to ensure amounts reported for fixed assets in the general ledger are correct. This finding will be completed prior to the next audit.
7. The property ledger will be updated and periodically reconciled to the general Ledger and depreciation schedule prior to closing the accounting period and

preparing the annual statement of operation. The fair will also make sure at year-end the property ledger agrees to the general ledger. Any discrepancies will be researched and corrected.

8. The fair shall maintain the property ledger as required.

INTERIM REVENUE

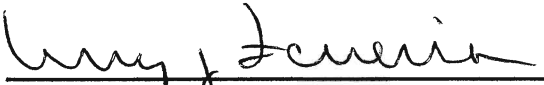
9. The fair shall perform a year-end review of the Bolado Park Golf Course to ensure that the revenue is accurate and correct.

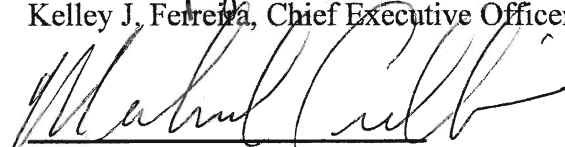
INDEPENDENT CONTRACTORS

10. The fair shall make sure that form DE-542, Report of Independent Contractors is prepared and submitted to EDD within 20 days of paying \$ 600.00 or more in services.
11. The fair shall make sure that it completes the Independent Contractor/Employee Status Determination Statement and document how the individual's classification was determined.

Should you require any further assistance, please feel free to call me.

Respectfully,


Kelley J. Ferreira, Chief Executive Officer


Mike Cullinan, Board President

cc: John Quiroz, Division of Fairs and Expositions

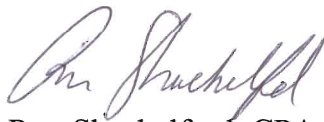
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 33rd DAA, San Benito County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 20, 2009 and August 7, 2009. My staff met with management on August 7, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

August 7, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 33rd DAA Board of Directors
1	Chief Executive Officer, 33rd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office